

ORIGINAL

BEFORE THE ARIZONA CORPORATE

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COMMISSIONERS

BOB STUMP, Chairman
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2013 JUN 14 A 11: 55

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

JUN 14 2013

DOCKETED BY

Am

IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
BASED THEREON FOR UTILITY SERVICE

DOCKET NO. W-02069A-08-0406

**MOTION TO AMEND DECISION
NO. 71445 PURSUANT TO A.R.S. §
40-252**

Pursuant to A.R.S. § 40-252, Sunrise Water Co. ("Sunrise") hereby asks the Arizona Corporation Commission ("Commission") to amend Decision No. 71445 entered December 23, 2009, so as to allow Sunrise to recover income-tax expense as part of its cost of service.

DISCUSSION

Recovery of income tax expense was a major issue in the Sunrise rate case which ended with Decision No. 71445. The Commission disallowed income-tax expense for Sunrise on the basis that Sunrise was an S Corporation for purposes of the Internal Revenue Code. S Corporations, like LLCs and subsidiaries of corporations that consolidate their tax returns, do not directly pay income taxes but instead pass the tax liability on to the ultimate owner(s). At the time Decision No 71445 was issued, Commission policy was to allow a pass-through corporate subsidiary, such as Arizona Public Service Company, to recover in rates an allowance for income tax expense, but not to allow other pass through entities such as LLCs or S Corporations to recover in rates an allowance for income tax expense.

On February 22, 2013, the Commission reconciled its inconsistent income-tax methodologies by issuing Decision No. 73739. This Decision changed Commission policy to

1 also support recovery of income tax expense as part of test-year revenue requirement for all pass-
2 through entities, including S Corporations such as Sunrise.

3 Decision No. 73739 sets forth the Commission's methodology to calculate recoverable
4 income tax expense for an S Corporation. Based on this methodology, Exhibit A calculates:

- 5 1. The amount of Sunrise's test-year income tax expense;
- 6 2. The resulting increase in Sunrise's test-year revenue requirement; and
- 7 3. Revised commodity rates by meter size.

8 As reflected on Exhibit A (Schedule H-2), the change in revenue requirement increases the bill
9 of a residential water customer with a 3/4 inch meter and average monthly usage of 17,782
10 gallons by \$1.40 per month, from \$61.56 to \$62.97, an increase of 2.28 percent.

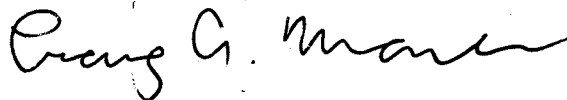
11 **COMPLIANCE**

12 Sunrise is in full compliance with all ADEQ rules and with all Commission rules and
13 decisions. Sunrise has no unresolved customer complaints.

14 **REQUESTED RELIEF**

15 Consistent with Decision No. 73739, Sunrise asks the Commission to amend Decision
16 No. 71445 so as to allow Sunrise to recover income-tax expense as part of its cost of service.

17 RESPECTFULLY SUBMITTED on June 14, 2013.

18
19 

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21
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Original and 13 copies filed
on June 14, 2013, with:

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1200 West Washington
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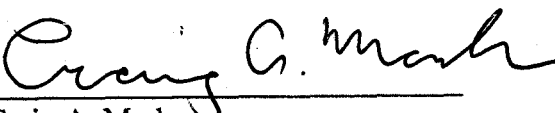
By: 
Craig A. Marks

Exhibit A

Sunrise Water Co.

Test Year Ended December 31, 2007

Computation of Increase in Gross Revenue Requirements As Adjusted

Schedule A-1

Page 1

Line No.		Decision 71445 No Income Tax	40-252 Allow Income Tax	Difference
1	Fair Value Rate Base	\$ 1,040,202	\$ 1,040,202	\$ -
2				
3				
4	Operating Revenues	\$ 1,311,812	\$ 1,311,812	\$ -
5	Operating Expenses before Property Taxes and Income Taxes	1,234,560	1,234,560	-
6	Property Taxes	60,657	60,657	-
7	Income Taxes	-	2,052	2,052
8	Adjusted Operating Income	\$ 16,595	\$ 14,543	\$ (2,052)
9				
10	Current Rate of Return	1.60%	1.40%	
11				
12	Required Operating Income	\$ 104,020	\$ 104,020	\$ -
13				
14	Required Rate of Return	10.00%	10.00%	
15				
16	Operating Income Deficiency	\$ 87,425	\$ 89,477	\$ 2,052
17				
18	Gross Revenue Conversion Factor	1.000	1.3261	
19				
20	Increase in Gross Revenue Requirement	\$ 87,425	\$ 118,656	\$ 31,231
21				
22				
23	Test Year Adjusted Revenues	\$ 1,311,812	\$ 1,311,812	\$ -
24	Increase in Revenue Requirement	\$ 87,425	\$ 118,656	\$ 31,231
25	Proposed Revenue Requirement	\$ 1,399,237	\$ 1,430,468	\$ 31,231
26	% Increase	6.66%	9.05%	2.38%
27				
28				
29				
30				
31				
32				
33	Property Taxes at Proposed Revenues	\$ 60,657	\$ 62,485	\$ 1,828
34	Income Taxes at Proposed Revenues	-	\$ 29,403	\$ 29,403
35			Total	31,231
36			Change in Revenue Requirement	31,231
37			Difference	(0)
38				
39				
40				
41				
42				
43	<u>SUPPORTING SCHEDULES</u>			
44	Decision			
45	C-1			
46	C-2			
47	C-3			
48				
49				
50				

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement

Schedule C-1
Page 1

Line No.		Per Decision Adjusted Test Year	Income Tax	40-252 Adjusted Results	Proposed Rate Increase	40-252 Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,303,474	\$ -	\$ 1,303,474	\$ 118,656	\$ 1,422,130
3	Unmetered Water Revenues			-		-
4	Other Water Revenues	8,338		8,338		8,338
5		<u>\$ 1,311,812</u>		<u>\$ 1,311,812</u>	<u>\$ 118,656</u>	<u>\$ 1,430,468</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 350,170		\$ 350,170		\$ 350,170
8	Purchased Water			-		-
9	Purchased Power	170,774		170,774		170,774
10	Chemicals	14,099		14,099		14,099
11	Repairs and Maintenance	26,549		26,549		26,549
12	Office Supplies and Expense	52,233		52,233		52,233
13	Outside Services	18,163		18,163		18,163
14	Water Testing	4,819		4,819		4,819
15	Rents	33,376		33,376		33,376
16	Transportation Expenses	56,476		56,476		56,476
17	Insurance - General Liability	11,141		11,141		11,141
18	Insurance - Health and Life	50,775		50,775		50,775
19	Reg. Commission Exp. - Rate Case	27,500		27,500		27,500
20	Miscellaneous Expense	12,201		12,201		12,201
21	Depreciation Expense	406,063		406,063		406,063
22	Taxes Other Than Income			-		-
23	Property Taxes	60,657	-	60,657	1,828	62,485
24	Income Tax	-	2,052	2,052	27,350	29,403
25	Reconciling Amount	222	-	222		222
26	Total Operating Expenses	<u>\$ 1,295,217</u>	<u>\$ 2,052</u>	<u>\$ 1,297,269</u>	<u>\$ 29,179</u>	<u>\$ 1,326,448</u>
27	Operating Income	<u>\$ 16,595</u>	<u>\$ (2,052)</u>	<u>\$ 14,543</u>	<u>\$ 89,477</u>	<u>\$ 104,020</u>

Sunrise Water Co.

Test Year Ended December 31, 2007

Computation of Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Schedule C-2

Page 1

Line No.		Adjusted Test Year	Proposed with Increase
1			
2			
3	Adjusted Revenues in year ended 12/31/07	\$ 1,311,812	\$ 1,311,812
4	Adjusted Revenues in year ended 12/31/07	1,311,812	1,311,812
5	Proposed Revenues	<u>1,399,237</u>	<u>1,430,468</u>
6	Average of three year's of revenue	\$ 1,340,954	\$ 1,351,364
7	Average of three year's of revenue, times 2	\$ 2,681,907	\$ 2,702,728
8	Add:		
9	Construction Work in Progress at 10%	\$ 5,709	\$ 5,709
10	Deduct:		
11	Book Value of Transportation Equipment	<u>-</u>	<u>-</u>
12			
13	Full Cash Value	\$ 2,687,616	\$ 2,708,436
14	Assessment Ratio	<u>22.5%</u>	<u>23.0%</u>
15	Assessed Value	604,714	622,940
16	Property Tax Rate	10.0306%	10.0306%
17			
18	Property Tax	60,657	62,485
19			
20	Total Property Tax at Proposed Rates	\$ 60,657	\$ 62,485
21	Adjusted Test Year Property taxes	<u>60,657</u>	<u>60,657</u>
22	Change in Property Taxes	<u>\$ -</u>	<u>\$ 1,828</u>
23			
24			
25	Adjustment to Revenues and/or Expenses	<u>\$ -</u>	<u>\$ 1,828</u>
26			
27	Increase in Property Tax Due to Increase in Revenue Requirement (Line 26)		1,828
28	Increase in Revenue Requirement		118,656
29	Increase in Property Tax Per Dollar Increase in Revenue (Line 28 / Line 29)		1.54081%
30			
31			

Sunrise Water Co.

Test Year Ended December 31, 2007

Computation of Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Schedule C-2

Page 2

Line No.		Adjusted Test Year	Proposed with Increase
1			
2	<u>Calculation of Income Tax:</u>		
3	Sunrise Water Company is an S-Corp wholly owned by J.D. Campbell		
4	Mr. Campbell filing status is Married Filing Jointly		
5	Calculation uses 2008 Individual Tax Tables, Married Filing Jointly		
6			
7	Revenue	\$ 1,311,812	\$ 1,430,468
8	Less: Operating Expenses (Excluding Income Taxes)	1,295,217	1,297,045
9	Less: Synchronized Interest	-	-
10	Arizona Taxable Income	\$ 16,595	\$ 133,423
11	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u>		
12	\$ - \$ 20,000 \$ - 2.5900%	\$ 430	\$ -
13	20,000 50,000 (58.00) 2.8800%	-	-
14	50,000 100,000 (298.00) 3.3600%	-	-
15	100,000 300,000 (1,178.00) 4.2400%	-	4,479
16	300,000 999,999,999 (2,078.00) 4.5400%	-	-
17	Arizona Income Tax	\$ 430	\$ 4,479
18	Federal Taxable Income	\$ 16,165	\$ 128,944
19	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u>		
20	\$ - \$ 16,050 \$ - 10.0000%	\$ -	\$ -
21	16,050 65,100 1,605.00 15.0000%	1,622	-
22	65,100 131,450 8,962.50 25.0000%	-	24,923
23	131,450 200,300 25,550.00 28.0000%	-	-
24	200,300 357,700 44,828.00 33.0000%	-	-
25	357,700 9,999,999,999 96,770.00 35.0000%	-	-
26	Total Federal Income Tax	\$ 1,622	\$ 24,923
27			
28	Combined Federal and State Income Tax	\$ 2,052	\$ 29,403
29			
30	Effective State Tax Rate	2.5900%	3.3571%
31	Effective Federal Tax Rate	10.0356%	19.3289%
32			
33	Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase)		3.4661%
34	Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)		20.6610%
35			
36	<u>Calculation of Interest Synchronization</u>		
37	Rate Base \$ 1,040,202		
38	Weighted Average Cost of Debt 0.000%		
39	Synchronized Interest \$ -		
40			
41	<u>Income Tax Adjustments</u>		
42	Test Year Income Taxes - Booked	\$ -	
43	Increase / (decrease) in Income Taxes (L21 - L32)	2,052	
44			
45	Test Year Income Taxes - Adjusted		\$ 2,052
46	Increase / (decrease) in Federal Income Taxes (L21 - L35)		27,350
47			
48			

Sunrise Water Co.

Test Year Ended December 31, 2007

Effective Tax Rate and Income Tax Comparison to C-Corp.

Schedule C-2

Page 3

Line No.	Income Tax at Personal Tax Rates	Income Tax at Standalone C-Corp Tax Rates	Difference
1			
2			
3			
4 State Income Taxes at Proposed Rates	\$ 4,479	\$ 9,297	\$ 4,818
5 Federal Income Taxes at Proposed Rates	24,923	\$ 23,591	(1,333)
6 Total Income Taxes	<u>\$ 29,403</u>	<u>\$ 32,888</u>	<u>\$ 3,485</u>
7			
8			
9			
10			
11			
12			
13			
14			
15			
16 <u>SUPPORTING SCHEDULES</u>			
17 Work papers			
18			
19			
20			

Line No.	Calculation of Gross Revenue Conversion Factor		
1	Revenue	100.0000%	
2	Uncollectable Factor (Line 11)	0.0000%	
3	Revenue (L1 - L2)	100.0000%	
4	Combined Income Tax and Property Tax Rate (Line 23)	24.5910%	
5	Operating Income Percentage (L3 - L4)	75.4090%	
6	Gross Revenue Conversion Factor (L1 / L5)	1.326102	
<u>Calculation of Uncollectable Factor</u>			
7	Unity	100.0000%	
8	Combined Federal and State Tax Rate (Line 17)	23.4109%	
9	One Minus Combined Federal and State Tax Rate (L7 - L8)	76.5891%	
10	Uncollectable Rate (Line 26)	0.0000%	
11	Uncollectable Factor (L9 * L10)	0.0000%	
<u>Calculation of Effective Tax Rate</u>			
12	Operating Income Before Taxes	100.0000%	
13	Applicable Arizona State Tax Rate (from Schedule C-2)	3.4661%	
14	Federal Taxable Income (L12 - L13)	96.5339%	
15	Applicable Federal Tax Rate (from Schedule C-2)	20.6610%	
16	Effective Federal Tax Rate (L14 * L15)	19.9449%	
17	Combined Federal and State Tax Rate (L13 + L16)		23.4109%
<u>Calculation of Effective Property Tax Rate</u>			
18	Unity	100.0000%	
19	Combined Federal and State Tax Rate (Line 17)	23.4109%	
20	One Minus Combined Income Tax Rate (L18 - L19)	76.5891%	
21	Property Tax Factor (from Schedule C-2)	1.5408%	
22	Effective Property Tax Factor (L20 * L21)		1.1801%
23	Combined Federal and State Income Tax Rate and Property Tax Rate (L17 + L22)		24.5910%
<u>Calculation of Uncollectable Rate</u>			
24	Bad Debt Expense (from Schedule C-1)	\$ -	
25	Total Revenues (from Schedule C-1)	1,311,812	
26	Uncollectable Rate (L24 / L25)	0.0000%	
27	Revenue Increase (from Schedule C-1)	\$ 118,656	
28	Uncollectable Rate (Line 26)	0.0000%	
29	Bad Debt Expense due to Increase	\$ -	

Line No.	Description	Average Number Customers	Average Consumption	Revenues		Proposed	
				Decision 71445 Present Rates	40-252 Proposed Rates	Increase Amount	Increase %
1							
2	3/4" Residential Meter	733	17,782	\$ 556,828	\$ 569,427	\$ 12,600	2.26%
3							
4	3/4" Commercial Meter	1	82,050	\$ 3,168	\$ 3,239	\$ 71	2.24%
5							
6	1" Residential Meter	531	26,737	\$ 638,956	\$ 653,627	\$ 14,671	2.30%
7							
8	1" Commercial Meter	1	378,492	\$ 14,436	\$ 14,758	\$ 322	2.23%
9							
10	1 1/2" Residential Meter	38	33,487	\$ 67,060	\$ 68,587	\$ 1,527	2.28%
11							
12	2" Residential Meter	9	178,604	\$ 70,483	\$ 72,069	\$ 1,586	2.25%
13							
14	3" Hydrant Meter	7		\$ 41,147	\$ 42,107	\$ 959	2.33%
15							
16	Coin Operated Standpipe			\$ 2,398	\$ 2,456	\$ 58	2.40%
17							
18							
19	Total Residential	1,311		\$ 1,333,327	\$ 1,363,711	\$ 30,384	2.28%
20	Total Commercial	2		\$ 17,604	\$ 17,997	\$ 393	2.23%
21	Total Hydrant	7		\$ 41,147	\$ 42,107	\$ 959	2.33%
22	Total Coin Standpipe	-		\$ 2,398	\$ 2,456	\$ 58	2.40%
23							
24	Total Metered Revenue	1,320		\$ 1,394,476	1,426,270	\$ 31,794	2.28%
25							
26							
28							
29							
31							
32							
					Increase Required	\$ 31,231	
					Difference	\$ 563	
					Percent Difference	1.80%	

Line No.	Description	Average Number Customers	Average Consumption	Typical Bill		Proposed	
				Decision 71445 Present Bill	40-252 Proposed Bill	Increase Amount	Increase %
1							
2	3/4" Residential Meter	733	17,782	\$ 61.56	\$ 62.97	\$ 1.40	2.28%
3							
4	3/4" Commercial Meter	1	82,050	\$ 264.01	\$ 269.91	\$ 5.90	2.24%
5							
6	1" Residential Meter	531	26,737	\$ 95.17	\$ 97.40	\$ 2.22	2.34%
7							
8	1" Commercial Meter	1	378,492	\$ 1,203.03	\$ 1,229.87	\$ 26.84	2.23%
9							
10	1 1/2" Residential Meter	38	33,487	\$ 140.37	\$ 143.63	\$ 3.26	2.32%
11							
12	2" Residential Meter	9	178,604	\$ 610.99	\$ 624.83	\$ 13.84	2.27%
13							
14	3" Hydrant Meter	7	138,499	\$ 527.53	\$ 539.83	\$ 12.30	2.33%
15							
16							

[illegible]